

TOP SECRET [REDACTED]

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20 July 1982

ARGENTINA

- I. The Bignone government has reached for a series of quick fixes to provide an immediate uplift for the ailing Argentine economy.
 - A. Wage and pension hikes, interest rate controls, and financial bailouts will spark economic recovery.
 - B. Devaluation and import controls will shore up the payments accounts but debt servicing problems will persist.
 - C. Failure to implement price controls has unleashed repressed inflation that has already caused consumer prices to increase 15 percent in the first 2 weeks of July.
 - D. The economic package won initial approval from civilian sectors, diminishing the immediate potential for renewed demonstrations against the government.
- II. The new economic policies have laid the foundation for longer-term problems.
 - A. The recovery should prove shortlived as accelerating inflation erodes purchasing power and undermines investment.
 - B. Increased government intervention will trigger growing distortions and increased economic inefficiency--making the government vulnerable to political demonstrations toward the end of the year.
- III. The shift in policy has not restored banker confidence.
 - A. Major banks are drawing up contingency plans for an Argentine debt rescheduling, according to clandestine reporting.
- IV. With regard to the Falklands, support within the armed forces for continuing hostilities appears to be quite isolated.

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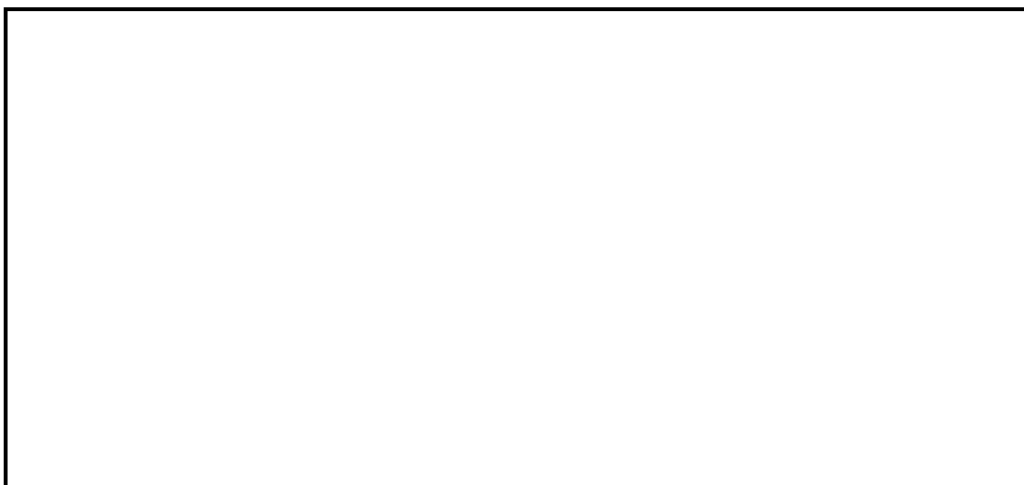
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- B. Mending the breach among the armed forces, rearming, and upgrading force capabilities will largely consume military energies.
- C. There are nonetheless some indications of Argentine military chafing at the situation imposed by the Falklands defeat and the continuation of the British military exclusion zone.



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- D. Bignone has no choice but to continue strong rhetorical support for Argentine claims and to press a diplomatic campaign.
 - 1. Buenos Aires is presently vigorously seeking Latin American backing for a Mexican sponsored UN initiative calling for renewed bilateral negotiations.

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